

Review of the Railroad Retirement Board's Internal Controls
Related to Changes in the Full Retirement Age
Report No. 02-01, December 20, 2001

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) review of changes to the full retirement age, the age at which an individual can receive full benefits with no reduction for retiring early.

BACKGROUND

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government. Its mission is to administer retirement, survivor, unemployment, and sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). During fiscal year 2000, the RRB paid approximately \$8.3 billion in retirement and survivor benefits to about 724,000 beneficiaries.

Social security legislation enacted in 1983 caused full retirement age to gradually increase from age 65 to age 67. This change also applies to railroad retirees because the Railroad Retirement Act uses the same full retirement age as the Social Security Act. The change affects individuals who reached early retirement age in calendar year 2000 or later. Early retirement age is defined in the Social Security Act as age 62 for employees' or spouses' benefits and age 60 for widow(er)s' benefits.

Individuals who take an early retirement have their benefits reduced for each month that they are under full retirement age. Due to the change in the full retirement age, the maximum annuity reduction is gradually increasing from 20 percent to 30 percent.

The RRB's Strategic Plan (2000 – 2005) provides that "The RRB is committed to ensuring that we pay the right benefits to the right people." In order to continue to pay the right benefits, the RRB had to update its regulations, procedures, and computer systems for the change in full retirement age.

OBJECTIVE, SCOPE AND METHODOLOGY

The OIG's objective for this review was to determine whether controls are sufficient to ensure that RRB annuities accurately reflect the recent changes to the full retirement age.

The scope of this review encompassed RRA annuities awarded in calendar year 2000 and the RRB's testing of the required system changes.

To accomplish the audit objective, the OIG:

- reviewed applicable laws, regulations, and procedures;
- reviewed the RRB's testing of system changes to determine if the testing provides reasonable assurance that RRB payment systems accurately reflect the changes to full retirement age;
- observed the entering of test cases to determine if one of the RRB's computer systems was calculating the correct number of age reduction months;
- reviewed the RRB's quality assurance activities to determine if these activities detected errors related to full retirement age and if they would detect any future errors;
- reviewed an RRB internal study of full retirement age changes to determine if the study provided reasonable assurance that RRB policies, procedures, and systems accurately reflected the changes to full retirement age; and
- assessed the RRB's control environment as applicable to full retirement age changes.

The OIG conducted the audit in accordance with generally accepted government auditing standards appropriate to the objective described above. Auditors performed the fieldwork at the RRB headquarters office in Chicago, Illinois from June 2001 through November 2001.

RESULTS OF REVIEW

The RRB has sufficient controls for ensuring that benefits are computed in compliance with the changes in the full retirement age. The RRB's overall system of management controls provides reasonable assurance that annuities awarded in calendar year 2000 accurately reflect recent changes to the full retirement age. The RRB adequately tested required computer system changes prior to implementation. This testing was a good preventive control to ensure the accuracy of benefit payments. As part of its quality assurance functions, the RRB takes samples of benefits paid or adjusted during the year to determine benefit accuracy and compliance with policy and procedures. This control is an effective means to detect any errors related to changes in full retirement age. The RRB's fiscal year 2000 quality assurance review reflected that there were no significant errors related to full retirement age changes.

Our review did note that some RRB regulations still refer to age 65 instead of the new full retirement age. This oversight could affect benefits paid in calendar year 2003 and in subsequent years. Details of this situation are presented below.

REGULATIONS NOT UPDATED FOR FULL RETIREMENT AGE

The RRB has not updated its regulations related to delayed retirement credits and employee disability benefits to reflect changes to the full retirement age. The regulations at sections 225.30(a), 225.33(a), and 225.34 of Title 20 of the Code of Federal Regulations (20 CFR) state that an employee can earn credits for delaying

retirement beginning with the month age 65 is reached. Also, regulations at 20 CFR sections 218.36 and 220.161 indicate that an employee disability annuity is changed to an age and service annuity when the employee becomes 65 years old. For each of the above cases, the reference to age 65 should have been changed to reflect the new full retirement age.

The RRA requires the RRB to make the first tier of benefits comparable to social security benefits. Under the Social Security Act, delayed retirement credits are calculated beginning with the month full retirement age is reached. The Social Security Act gradually increases full retirement from age 65 to age 67.

The RRA further requires the RRB to consider a disabled employee annuitant to have filed an application for a regular retirement annuity on the date the annuitant reaches full retirement age. According to the RRA, an employee disability annuity must end the last day of the month before the month the annuitant reaches full retirement age.

In addition, the RRA requires the RRB to establish and publish rules and regulations so that all matters involving a difference of opinion that arise in the administration of the RRA can be settled. To adequately resolve such differences, the regulations must be up to date.

The Bureau of Law in the Office of General Counsel is responsible for recommending and drafting regulations for adoption by the RRB's three-member Board. When the Bureau of Law drafted amendments to update RRB regulations for changes in the full retirement age, it did not change some of the sections related to delayed retirement credits and employee disability benefits.

The outdated regulations regarding delayed retirement credits and employee disability benefits do not impact benefit payments currently being paid because the impacted individuals will not reach age 65 or their full retirement age until 2003 or later. The outdated regulations do, however, provide inaccurate information about the administration of RRA programs.

Recommendation

The Bureau of Law should draft amendments to update RRB regulations on delayed retirement credits and employee disability benefits to reflect changes to the full retirement age.

Management's Response

Management concurs with the recommendation and has already prepared a preliminary draft of the required amendments.